

Survey of State Tax Rates and Collections

Rates for FY'92 Rise Sharply; Collections for FY'90 Break \$300 Billion

by Gregory S. Leong

Thirty states have enacted tax increases that will raise a total of \$17 billion in new revenue in FY1992, making FY'91 the biggest revenue-raising year in history at the state level. In addition to hiking tax rates, states increased taxes indirectly by broadening taxable bases, extending temporary hikes, and conforming to federal tax rates. They also enacted a host of "non-tax" revenue-raising measures, such as higher fees and accelerated collections, that will bring in approximately \$2.4 billion more in FY'92 revenue.

Gasoline and tobacco were the most popular targets as 23 states hiked the amounts they collect at the pump and 14 states raised

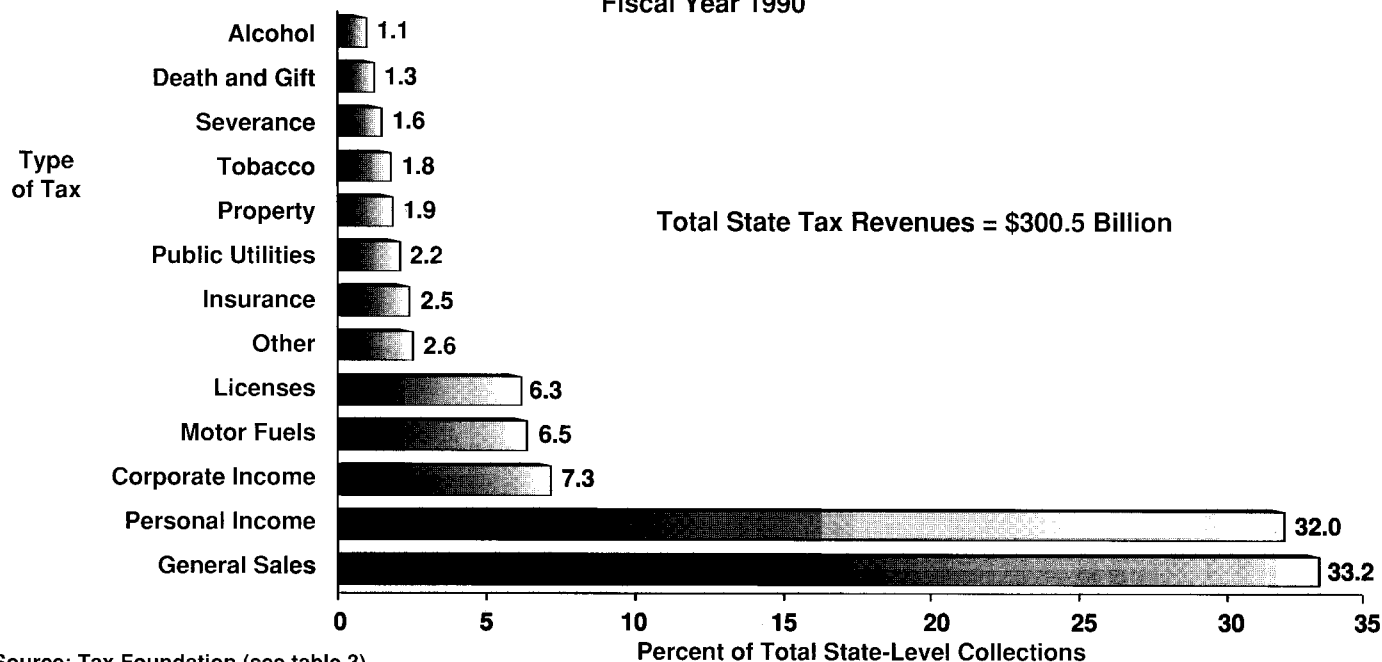
their cigarette excises. The bulk of the new revenue will not come from higher excise rates, however, but rather from higher sales taxes in six states, and higher personal income taxes in eight states.

Individual Income Taxes

Connecticut was the only state to enact a new broad-based income tax this year. Lawmakers there repealed taxes on capital gains, dividends, and interest income, replacing them with a flat 4.5 percent income tax. All told, the state's FY'91 tax package is expected to net \$1 billion in new FY'92 revenues. With this new tax system, Connecticut joins six

Figure 1
Percentage Distribution of State Government Tax Collections by Source

Fiscal Year 1990



Source: Tax Foundation (see table 3).

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Table 1
Major State Taxes and Rates
as of August 1, 1991

State	Corporate	Individual	General Sales and Use Tax	Gasoline Tax (per gallon)	Cigarette Tax (per pack of 20)	Property Tax
Alabama	5% (F)	2 to 5% (F)	4% (a)	11 cents	16.5 cents	X
Alaska	1 to 9.4	none	none	8	29	X
Arizona	9.3	3.8 to 7	5 (a)	18	18	X
Arkansas	1 to 6.5	1 to 7	4.5 (a)	18.5	22	X
California	9.3 (c)	1 to 11 (c)	6 (a,d)	15 (b)	35	X
Colorado	5 to 5.2 (d)	5 (c)	3 (a)	22	20	X
Connecticut	11.5 (f)	4.5 (g)	8 (d)	23 (b)	40 (b)	X
Delaware	8.7 (w)	3.2 to 7.7	none	19 (l)	24	
District of Columbia	10 (f)	6 to 9.5 (f)	6	18	30	X
Florida	5.5 (c)	none	6 (a)	4 (w)	33.9	X
Georgia	6% of taxable net income	1 to 6	4 (a)	7.5 + 3% of retail	*12	X
Hawaii	4.4 to 6.4	2 to 10	4 (a)	24.8 to 32.5 (v)	40% of wholesale	
Idaho	8	2 to 8.2	5	22 (v)	18	X
Illinois	4.8 (h)	3 (h)	6.25 (a)	19 (d,w)	30	X
Indiana	3.4 (i)	3.4	5	15	15.5	X
Iowa	6 to 12 (F,i)	.4 to 9.98 (c,F)	4 (a)	20	36	
Kansas	4.5 (f)	3.65 to 5.15 (k)	4.25 (a)	17 (b)	24	X
Kentucky	4 to 8.25	2 to 6	6 (a)	15 (e)	3	X
Louisiana	4 to 8 (F)	2 to 6 (F)	4 (a)	20	20	X
Maine	3.5 to 8.93	2 to 8.5 (o)	6 (d)	19	37	X
Maryland	7	2 to 5	5	18.5	16	X
Massachusetts	9.5 (e,m)	6.25 (n)	5	21 (e)	26	X
Michigan	2.35	4.6	4	15	25	X
Minnesota	9.8 (c)	6 to 8.5	6.5 (a,d)	20.25	43	X
Mississippi	3 to 5	3 to 5	6	18 (d)	18	X
Missouri	5 to 6.5 (d,F)	1.5 to 6 (F)	4.225 (a,d)	11	13	X
Montana	6.75 (f,s)	2 to 11 (F)	none	20	18	X
Nebraska	5.58 to 7.81	2.37 to 6.92	5 (a)	23.71 (v)	27	X
Nevada	none	none	5.75 (a,b)	18	35	X
New Hampshire	8	5 (g)	none	18	25	X
New Jersey	9 (f,t)	2 to 7	7	10.5	40	X
New Mexico	4.8 to 7.6	1.8 to 8.5	5	16.2	15	X
New York	9 (c,d,e,f,u)	4 to 7.875 (d,p)	4 (a)	8	39	
North Carolina	7.75 (f)	6 to 7.75	4 (a)	22.6 (v)	5	X
North Dakota	3 to 10.5 (c,F)	2.67 to 12 (F,q)	5	17 (d)	29	X
Ohio	5.1 to 8.9	.743 to 6.9	5 (a)	21 (v)	18	X
Oklahoma	6	.5 to 7 (k,F)	4.5 (a)	16 (e)	23	
Oregon	6.6	5 to 9 (F)	none	20	28	X
Pennsylvania	12.25	3.1 (d)	6 (a)	12	31	X
Rhode Island	9 (f)	27.5 % of modified Federal Income tax	7	26 (e)	37	X
South Carolina	5	2.5 to 7	5 (a)	16	7	X
South Dakota	none	none	4 (a)	18	23	
Tennessee	6 (g)	6 (g)	5.5 (a)	21 (w)	13	
Texas	none	none	6.25 (a)	20	41	
Utah	5	2.55 to 7.2 (F)	5 (a)	19 (w)	26.5	X
Vermont	5.5 to 8.25	28% of federal income tax liability (d,o)	5	15	18 (b)	X
Virginia	6	2 to 5.75	3.5 (a)	17.5	2.5	X
Washington	none	none	6.5 (a)	23 (l)	34 (d)	X
West Virginia	9.15	3 to 6.5 (c)	6	15.5	17	X
Wisconsin	7.9	4.9 to 6.93	5 (a)	22.5 (l)	30 (e)	X
Wyoming	none	none	3 (a)	9 (l)	12	X

(X) Indicates property tax levied.

(F) Allows federal income tax as a deduction.

(a) Local taxes are additional.

(b) Future increases scheduled under current law. As of October 1, 1991, CT gas tax -25 cents, and cigarette tax -45 cents.

(c) Alternative minimum tax is imposed.

(d) Future reductions scheduled under current law. CT sales tax drops to 6% October 1, 1991.

(e) Alternative methods of calculation may be required.

(f) Corporate surtax is imposed, CT - 20%, DC - 5%, KS - 2.25%, NJ - 3.75%, NY - 15%, NC - 4%, ME - 10%, MT - 5%, RI - 11%. CT surtax scheduled to decrease to 10% in 1992 and be eliminated in 1993.

(g) In NH and TN, rates apply to income from dividends and interest. In CT, lower rates applied to

income from interest and dividends. Additional changes in deductions also added in 1991 for CT.

(h) Additional 1.5-2.5% personal property replacement tax imposed.

(i) A supplemental net income tax is imposed at 4.5%.

(j) Franchise tax is 5% of taxable net income.

(k) In KS and OK, higher rates may apply to taxpayers deducting federal income tax.

(l) Tax rate is periodically adjusted administratively.

(m) Excise tax is imposed equal to the greater of (a) \$2.60 (includes surtax) per \$1,000 of value of MA tangible property not taxed locally or net worth allocated to MA, plus 9.5% (includes surtax) of net income, or (b) \$400.

(n) Tax of 12% on income derived from interest, dividends, and capital gains.

(o) Income surtax imposed, ME - 5-15%, VT - 3-6%.

(p) Qualified taxpayers may elect to pay alternative taxes

at varying rates.

(q) Election to be taxed on 14% of taxpayer's federal income tax liability.

(r) Additional county transportation tax levied.

(s) 7% rate for corporations using "water's edge" apportionment.

(t) A 7.25 % corporation income tax is imposed on entire net income of foreign corporations not subject to the corporation business tax.

(u) Small business taxpayers are subject to a lower rate.

(v) Includes additional taxes or fees. Hawaii gas rates include county rates.

(w) Additional tax or surcharge imposed.

Sources: Compiled by Tax Foundation from survey of state revenue offices and data reported by Commerce Clearing House through July 1, 1991.

states which use a flat tax rate for all income.

Seven other states raised individual income tax rates: Rhode Island and Vermont, which base their income taxes on federal tax liability, hiked their rates; California, Massachusetts, Nebraska, and North Carolina raised their marginal rates for top income earners; and Pennsylvania raised its flat rate from 2.1 to 3.1 percent.

Rates in three states, Kansas, Oklahoma, and South Carolina, dropped for FY'92. South Carolina, as a result of prior legislation, enacted the final phase of income tax reduction, lowering the bottom marginal rate from 3 to 2.5 percent. Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming retain the distinction of being the only seven states which levy no individual income tax. Tennessee and New Hampshire exempt wages and salaries but tax income from interest and dividends.

Corporate Income Taxes

Six states — Arkansas, Kentucky, Minnesota, Nebraska, North Carolina, and Pennsylvania — raised corporate income tax rates for FY'92 while two states, Colorado and West Virginia, lowered them. Pennsylvania enacted the largest percentage increase, 44 percent, and consequently has the highest marginal corporate tax rate in the nation, 12.25 percent, slightly above Iowa's 12 percent. Iowa is followed by North Dakota (10.5 percent), and Minnesota (9.8 percent). (This ranking is based solely on marginal tax rates and does not take into account surtaxes or alternative minimum taxes, where imposed.) Five states continue to avoid corporate income taxes altogether: Nevada, South Dakota, Texas, Washington, and Wyoming.

Sales and Excise Taxes

Among the six states that increased their sales taxes for FY'92, California imposed the largest rate hike, from 4.75 to 6 percent. Connecticut, which had the highest sales tax in the nation last year, 8 percent, reduced its rate to 6 percent. As a result, New Jersey and Rhode Island now have the highest sales tax rates in the nation, 7 percent, followed by Minnesota and Washington, 6.5 percent. Five states — Alaska, Delaware, Montana, New Hampshire, and Oregon — do not impose a sales and use tax.

Twenty-three states enacted higher excises on motor fuels this year. California and Rhode Island enacted the largest increases, six cents per gallon. Hawaii added five cents per gallon and still imposes the highest gaso-

Table 2
Projected Fiscal 1992 State Level
Net Revenue Gains and Losses
Resulting from 1991 Enactments

State	Revenue (\$Millions)	Per Capita (a)
Alabama	\$172.0	\$42.57
Alaska	1.0	1.82
Arizona	9.1	2.48
Arkansas	264.7	112.60
California	6,568.0	220.70
Colorado	-	-
Connecticut	1,035.5	315.02
Delaware	94.5	141.86
Florida	51.1	3.95
Georgia	-	-
Hawaii	48.0	43.31
Idaho	12.7	12.61
Illinois	817.0	71.47
Indiana	42.7	7.70
Iowa	13.6	4.90
Kansas	-	-
Kentucky	-	-
Louisiana	315.0	74.65
Maine	266.0	216.63
Maryland	90.1	18.84
Massachusetts	-	-
Michigan	(10.0)	(1.08)
Minnesota	287.7	65.76
Mississippi	-	-
Missouri	-	-
Montana	(4.7)	(5.88)
Nebraska	17.3	10.96
Nevada	140.6	116.99
New Hampshire	61.7	55.62
New Jersey	(20.0)	(2.59)
New Mexico	27.1	17.89
New York	1,200.0	66.70
North Carolina	616.9	93.07
North Dakota	(0.1)	(0.16)
Ohio	122.1	11.26
Oklahoma	-	-
Oregon	92.6	32.58
Pennsylvania	3,302.0	277.91
Rhode Island	130.8	130.35
South Carolina	10.6	3.04
South Dakota	-	-
Tennessee	5.5	1.13
Texas	799.0	47.04
Utah	4.9	2.84
Vermont	90.1	160.10
Virginia	33.2	5.37
Washington	10.7	2.20
West Virginia	-	-
Wisconsin	284.7	58.20
Wyoming	-	-
District of Columbia	44.5	73.32
	\$17,048.2	-

(a) Based on latest available population data, June 1990.
Source: National Conference of State Legislatures, and
Tax Foundation survey of revenue departments,
legislative officials, and governors' offices.

line tax in the nation: the combined state-local tax ranges from 24.8 to 32.5 cents per gallon. Rhode Island (26 cents), Nebraska (23.71 cents), and Connecticut and Washington (23 cents) follow closely behind. Florida levies the lowest rate, 4 cents; but gasoline is also subject to a 6.9 percent general sales tax. Alaska and New York have the next lowest rates at 8 cents.

On cigarettes, the largest tax increases were enacted by Pennsylvania and the District of Columbia, which raised their rates 13 cents to 31 cents and 30 cents per pack respectively. Minnesota had been imposing the highest rate in the country — 43 cents per pack — but fell to second on October 1, 1991, when Connecticut's increase to 45 cents took effect. (See table 1 for more details.)

Additional Tax Burden Per Capita

Five states — California (\$6.6 billion), Pennsylvania (\$3.3 billion), New York (\$1.2 billion), Connecticut (\$1 billion), and Texas (\$799 million) account for more than 75 percent of the net \$17 billion tax increase (see table 2). However, a per capita analysis gives a clearer picture of what these additional tax revenues mean to the average taxpayer.

While California's \$6.6 billion increase is by far the largest total tax hike, the heaviest additional per capita tax burden will fall on taxpayers in Connecticut. There, a one billion dollar tax hike translates to \$315.02 in addi-

tional taxes for every man, woman and child. Eight other state governments will extract over \$100 per capita in new state taxes in FY'92:

Pennsylvania	\$277.91	Delaware	\$141.86
California	\$220.70	Rhode Island	\$130.35
Maine	\$216.63	Nevada	\$116.99
Vermont	\$160.10	Arkansas	\$112.60

Meanwhile, four states bucked the revenue-raising trend by passing measures that will bring in less revenue in FY'92, but not very much less. Montana will spare its taxpayers \$5.88 per capita; New Jersey, \$2.59 per capita, Michigan, \$1.08 per capita, and North Dakota, 16 cents per capita in FY'92. In all the states which passed any kind of new revenue measures this year, the average additional tax burden will be \$62.84 per capita for FY'92.

Trends in State Tax Collections

This year's \$17 billion increase in FY'92 taxes, following on the heels of the \$9.5 billion increase in FY'91, has perpetuated the 1980s' trend of escalating state taxes.

Moreover, state tax collections grew at an average rate of 8.6 percent in the 1980s, outpacing inflation by more than 3 percentage points and personal income by 0.6 percentage points. During the decade, state tax collections rose 119 percent, from \$137.1 billion in 1980 to \$300.5 billion in 1990. Personal

Table 3
State Government Tax Collections By Type
Fiscal Years 1980-1990
(\$Billions)

Type of Tax	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 (a)	1990	Percent Change 80-90	Percent Change 89-90
Total	\$137.1	\$149.8	\$162.6	\$171.5	\$196.9	\$215.9	\$228.1	\$246.5	\$264.1	\$284.4	\$300.5	119.3%	5.7%
General Sales	43.2	46.4	50.4	53.6	62.6	69.6	74.8	79.2	87.1	93.5	99.7	131.0	6.6
Personal Income	37.1	40.9	45.7	49.8	59.0	63.9	67.4	76.2	80.1	88.8	96.1	158.9	8.2
Corporate Income	13.3	14.1	14.0	13.2	15.5	17.6	18.4	20.5	21.6	23.9	21.8	63.6	-8.8
Motor Fuels	9.7	9.7	10.5	10.8	12.4	13.3	14.1	15.7	17.2	18.1	19.4	99.6	7.2
Licenses	8.7	9.5	10.1	10.7	12.0	13.8	14.9	15.9	17.0	17.7	18.8	116.3	6.2
Other	3.2	3.4	3.7	3.9	5.2	6.0	6.4	7.1	7.4	7.7	7.8	142.8	1.3
Insurance	3.1	3.3	3.5	3.9	4.1	4.5	5.5	6.3	6.9	7.4	7.4	137.7	0.0
Public Utilities	3.4	4.3	4.9	5.7	5.9	6.2	6.0	6.0	6.2	6.2	6.5	93.5	4.8
Property	2.9	2.9	3.1	3.3	3.9	4.0	4.4	4.7	5.0	5.3	5.8	100.5	9.4
Tobacco	3.7	3.9	4.0	4.0	3.9	4.4	4.5	4.6	4.8	5.1	5.5	47.1	7.8
Severance	4.2	6.4	7.8	7.4	7.2	7.2	6.1	4.0	4.3	4.1	4.7	11.7	14.6
Death and Gift	2.0	2.2	2.4	2.5	2.2	2.3	2.5	3.0	3.2	3.5	3.8	86.7	8.6
Alcohol	2.5	2.6	2.7	2.7	2.9	3.0	3.1	3.1	3.2	3.1	3.2	29.2	3.2

(a) 1989 figures revised.

Source: Department of Commerce, Bureau of the Census; and Tax Foundation computations.

income taxes, insurance taxes, and sales taxes grew the fastest, jumping 159 percent, 138 percent, and 131 percent respectively.

FY'90 Collections Reach All-Time High

State tax revenues broke the \$300 billion mark for the first time in FY'90, rising 5.7 percent from their FY'89 level of \$284 billion, and providing 58 percent of total general revenue for the states. Severance tax, property tax, and death and gift tax grew the fastest, but most of the new funds were clearly due to persistent growth in collections from the mainstays of state government finance, personal income taxes and general sales taxes. They rose 8.2 percent and 6.6 percent respectively. Together these two tax sources accounted for more than 65 percent of the tax pie – \$99.7 billion from sales taxes and \$96.1 billion from personal income taxes. The third most pro-

digious revenue producer for state governments is corporate income taxes, which have been increasing rapidly and represented 7.3 percent of total collections in FY'90, or \$22 billion. The remainder of FY'90's revenue was garnered mostly from motor fuel taxes and licenses (see table 3 and figure 1).

Tax Burden Per Capita

Based on FY'90 tax collections, the average state tax burden per capita rose \$62, from \$1,148.52 in FY'89 to \$1,211.14 in FY'90. Alaskans pay the highest per capita taxes in the country, \$2,811.49 per resident. Hawaii (\$2,106.78), Delaware (\$1,695.59), and Connecticut (\$1,602.62) rank two-three-four in taxes per person. Taxpayers in New Hampshire (\$536.67), South Dakota (\$718.52), Texas (\$866.36), and Tennessee (\$870.38) will shoulder the lightest per capita state tax burdens (see table 4 and figure 2).

Figure 2
State Tax Collections Per Capita by State
Fiscal Year 1990



Source: Tax Foundation

Table 4

Total State Level Tax Collections Per \$1,000 in Personal Income and Per Capita Tax Burden

Fiscal Year 1990

State	Per \$1000 of Income	Rank Per Capita	Per Capita (a)	Personal Income (b) (\$Millions)	Total Tax Revenue (\$Millions)
Total	\$64.87	-	\$1,211.14	\$4,632,380	\$300,488.6
Alabama	63.76	44	945.29	59,907	3,819.5
Alaska	129.20	1	2,811.49	11,969	1,546.4
Arizona	73.27	20	1,194.13	59,732	4,376.8
Arkansas	67.65	42	961.80	33,423	2,260.9
California	70.16	9	1,458.98	618,850	43,419.2
Colorado	49.57	45	931.71	61,916	3,069.4
Connecticut	63.20	4	1,602.62	83,355	5,268.0
Delaware	84.62	3	1,695.59	13,349	1,129.6
Florida	55.27	37	1,027.17	240,459	13,289.5
Georgia	64.49	31	1,092.62	109,765	7,078.2
Hawaii	104.02	2	2,106.78	22,446	2,334.8
Idaho	74.61	25	1,131.11	15,262	1,138.7
Illinois	55.55	27	1,127.72	232,071	12,890.5
Indiana	65.26	30	1,100.55	93,494	6,101.6
Iowa	69.17	21	1,193.15	47,897	3,313.1
Kansas	59.89	32	1,077.26	44,562	2,669.0
Kentucky	77.44	24	1,156.13	55,019	4,260.7
Louisiana	67.29	40	968.42	60,730	4,086.7
Maine	73.90	16	1,271.14	21,120	1,560.9
Maryland	61.70	11	1,348.99	104,543	6,450.1
Massachusetts	68.78	7	1,557.26	136,226	9,369.1
Michigan	66.52	19	1,220.34	170,534	11,343.4
Minnesota	83.21	6	1,558.65	81,948	6,819.3
Mississippi	73.11	46	931.08	32,770	2,395.9
Missouri	55.16	41	965.23	89,535	4,939.2
Montana	71.04	33	1,073.36	12,074	857.7
Nebraska	55.66	43	958.53	27,182	1,512.9
Nevada	67.85	15	1,317.39	23,335	1,583.3
New Hampshire	25.82	50	536.67	23,060	595.3
New Jersey	54.06	10	1,349.76	193,008	10,433.9
New Mexico	93.43	14	1,329.34	21,556	2,014.0
New York	72.38	5	1,590.54	395,336	28,614.6
North Carolina	73.23	22	1,186.48	107,403	7,864.7
North Dakota	69.48	35	1,059.97	9,745	677.1
Ohio	60.34	36	1,054.32	189,537	11,436.4
Oklahoma	71.57	29	1,105.31	48,581	3,476.9
Oregon	57.13	39	980.15	48,762	2,785.9
Pennsylvania	59.59	28	1,112.61	221,850	13,219.7
Rhode Island	65.23	18	1,229.05	18,906	1,233.3
South Carolina	74.73	26	1,128.40	52,646	3,934.4
South Dakota	45.27	49	718.52	11,047	500.1
Tennessee	55.09	47	870.38	77,052	4,245.0
Texas	51.70	48	866.36	284,678	14,716.5
Utah	72.87	38	1,026.20	24,263	1,768.0
Vermont	67.85	23	1,183.00	9,812	665.7
Virginia	54.02	34	1,066.77	122,178	6,600.5
Washington	80.88	8	1,525.29	91,774	7,423.1
West Virginia	90.44	17	1,243.25	24,655	2,229.7
Wisconsin	76.59	13	1,340.57	85,620	6,557.7
Wyoming	82.23	12	1,348.39	7,438	611.6
Exhibit: Dist. of Col.	157.43	-	3,806.74	14,675	2,310.3

(a) Population as of June 1990.

(b) Personal income is the sum of the State estimates. It omits the earnings of Federal civilian and military personnel stationed abroad and of U.S. residents employed abroad temporarily by private U.S. firms.

Source: U.S. Department of Commerce, Bureau of the Census, Bureau of Economic Analysis, and Tax Foundation computations.

Taxes Per \$1,000 of Personal Income

Taxpayers paid a national average of \$64.87 in state level taxes per \$1,000 of personal income earned. The average effective rate, therefore, of taxes per \$1,000 of personal income is 6.49 percent. Thirty-one states and the District of Columbia surpassed this national average rate. Alaska, second only to the District of Columbia, led the states with an effective rate of 12.9 percent, nearly double the national average. By comparison, taxpayers in New Hampshire paid 2.6 percent of their personal income in state taxes, only one-fifth of Alaska's rate. The ten states with the highest taxes as a percentage of personal income are:

Alaska	12.9	Minnesota	8.3
Hawaii	10.4	Wyoming	8.2
New Mexico	9.3	Washington	8.1
West Virginia	9.0	Kentucky	7.7
Delaware	8.5	Wisconsin	7.7

The lowest percentages are paid by taxpayers in:

New Hampshire	2.6	New Jersey	5.4
South Dakota	4.5	Tennessee	5.5
Colorado	5.0	Missouri	5.5
Texas	5.2	Florida	5.5
Virginia	5.4	Illinois	5.6

Outlook for State Taxpayers

While Americans are struggling to make ends meet in a recessionary economy, state legislatures have handed them a whopping \$17 billion tax hike. Despite the size of the increase, demands for more state-level funds are already being heard, as state governments try to simultaneously keep up with federal spending mandates and satisfy their own wish-lists for higher spending. This perpetuates a trend of the 1980s - higher taxes and higher spending at the state level. And with no robust recovery in sight, it is a trend which will cause an increasing amount of pain to state taxpayers.

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has been monitoring tax and fiscal activities at all levels of government since 1937.